



Key themes

This is our monthly update on Cement production, volumes and inventory in Saudi Arabia.

Saudi Cement sector: Sales weakness persists

What do we think?

Stock	Rating	Price Target
Yamama	N	SAR 17.0
Southern	N	SAR 44.0
Saudi	N	SAR 42.0
Yanbu	N	SAR 33.0
Qassim	N	SAR 44.0
Arabian	N	SAR 36.0

Total cement sales for Q1 2018 stood at 11.8-mn tons (-11% y-o-y and -1% q-o-q) as a result of continued slowdown in construction activity. The combination of weak demand and high inventory levels forced the companies to seek other solutions such as entering other regions within the Kingdom as well as exporting with low selling prices – a case in point is Yanbu Cement export agreement which seeks to lower the inventory and increase cash levels . Yanbu cement's low cash cost per ton gives the company the ability to export with lower prices, which is likely not possible for other companies to replicate in our view.

- Going forward, demand is unlikely to pick up based on the trends witnessed during the first three months of 2018. We remain cautious as the construction activities are bound to remain weak. We believe Q2 will witness a material drop in sales volume due to seasonality (Ramadan and the Eid) which will result in around 20% drop on q-o-q basis to reach 9.6 mn tons (-14 y-o-y) based on our analysis. For now, we remain neutral on the sector given the low demand, high inventories and price war in the sector.
- The overhang of excess inventory remains with a slight increase on a m-o-m basis. Inventory stood at 35.7mn tons (79% of LTM sales). In this backdrop, reaching the optimal level of inventories (2 months dispatches) will take time in our view.
- We believe that due to slowdown in construction activity and prevailing high inventory levels, companies started to enter new regions in the Kingdom which triggered a price war. The central region seems to be an attractive area especially for northern region cement companies due to the relatively bigger market. The sales market share for northern cement companies increased in the last six months. On the other hand, central region companies' market share decreased slightly during the same period.
- Yanbu Cement signed a one-year agreement to export 1 million tons of clinker and 0.5 million tons of cement starting April 2018. The deal is estimated to add SAR100mn revenue in 2018 as per management commentary. The agreement will help the company to lower its inventory (currently at 76% of LTM sales) and increase cash levels which will support higher payout ratio for the year. On the other hand, we believe lower margins on this deal will not aid material earnings improvement. We believe the company will renew the deal next year if the local demand remains weak.



Monthly sales for March at 4.1mn tons :

According to the latest monthly data released by Yamama Cement, total cement dispatches in the Kingdom declined 11% y-o-y in the month of March. Total inventory rose 23.2% y-o-y to 35.7mn tons, representing 71% of the last 12 months' sales. Clinker production in the Kingdom fell 12% y-o-y to 4.06 mn tons during March. Yamama Cement and Riyadh Cement posted the sharpest decline in dispatches by ~50% y-o-y and ~41% y-o-y, respectively. Meanwhile, Hail Cement and Tabuk Cement reported the highest increase in cement sales by ~42% y-o-y and ~17.8% y-o-y respectively. The high inventory level could be attributed to lower cement demand (slowdown in construction activities in the Kingdom), and limited supply cut by Saudi producers. Pressure of high inventories might lead some producers to offer more discounts. The companies holding highest inventories as compared to last 12-month sales include Hail (219%), Najran (150%), and Tabuk (117%), while those holding the lowest inventories include City (24%), Arabian (24%), and United (24%).

Figure 1 Cement Sector (March data)

Company Name	Sales Volume			Current Inventory			Inventory as % of LTM sales
	2017	2018	y-o-y	2017	2018	y-o-y	
Yamama Cement	521	258	-50%	4215	4,926	17%	132%
Saudi Cement	469	463	-1%	4972	4,889	-2%	97%
Eastern Cement	192	198	3%	2100	2,722	30%	126%
Qassim Cement	359	335	-7%	1003	1650	65%	44%
Yanbu Cement	485	540	11%	2851	3,974	39%	76%
Arabian Cement	380	330	-13%	310	918	196%	27%
Southern Cement	542	498	-8%	2247	3,312	47%	62%
Tabuk Cement	123	145	18%	1064	1,429	34%	130%
Riyadh Cement	309	182	-41%	1589	1,075	-32%	44%
Najran Cement	188	143	-24%	2907	2,794	-4%	167%
Cement City	383	249	-35%	1096	823	-25%	27%
Northern Cement	115	114	-1%	721	1,090	51%	93%
Jouf Cement	114	121	6%	1060	1,179	11%	87%
Safwa Cement	156	160	3%	328	886	170%	51%
Hail	92	131	42%	1710	2,640	54%	237%
Umm alQura cement	115	124	8%	381	975	156%	75%
United cement	133	172	29%	445	457	3%	25%
Total	4676	4163	-11%	28999	35,739	23%	79%

Source: Yamama cement, Al Rajhi Capital



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